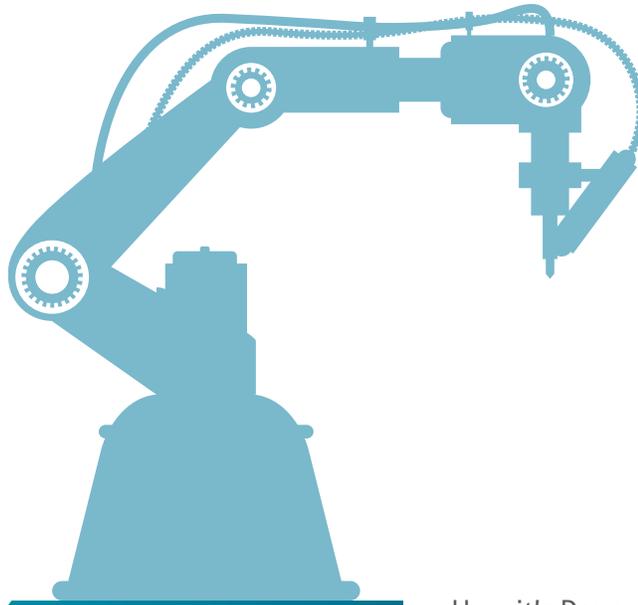


HOW IT'S DONE

Why
Canada's
Supply Chain
Matters



How it's Done – Why Canada's
Supply Chain Matters

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HOW IT'S DONE – WHY CANADA'S SUPPLY CHAIN MATTERS

Cheryl Farrow, President and CEO,
Supply Chain Management Association

Once upon a time supply chain management professionals were scattered around organizations, with a firm mandate to keep costs down and ensure that everything ran smoothly. This remains the foundation of the supply chain function, but there has been a striking evolution of the role in recent years as organizations of all types recognize how important suppliers are to their own success.

Canadian companies like Maple Leaf Foods and Rona have turned around their businesses in recent years by focusing on the performance of their supply chains. Walmart's position as the dominant force in retail is built around a relentless approach to the continuous improvement of its supply chain. Recognizing the threat posed to its traditional business model by technology companies like Apple, TD Bank is forming strategic relationships with suppliers in the financial technology space to deliver better online and mobile banking solutions.

In Canada's public sector too we have seen supply chain professionals deliver new approaches that have seen Toronto's 2015 PanAm Games delivered on time and on budget, leveraged government spending on real estate as a catalyst for redevelopment in Edmonton, and ensured the safety and reliability of Canada's blood supply.

Organizations of all kinds have specific roles they must play which is essentially **what they do**, supply chain management is **how they do it**. If a car manufacturer wants to position itself as the environmental leader it has to work with its suppliers to deliver that performance. If a retailer promises a seamless shopping experience online through to a physical shop it has to have the logistics and inventory management in place to deliver. If a government wants to deliver more local economic benefits through the money it spends it has to do so in a way that meets its obligations and delivers the best value for taxpayers.

Many successful organizations in recent years have built their success by focusing on their supply chain and working with suppliers, and it yields results. According to consulting firm PwC companies that operate best in class supply chains have 50% higher sales growth and are 20% more profitable.¹ This report provides an overview of why supply chain management is so important to organizations of all shapes and sizes in Canada, and why the supply chain management role will continue to become ever more critical to an organization's success.

¹<https://www.pwc.com/th/en/consulting/operations/assets/pdf/benchmarking-supply-chain.pdf>

SUPPLY CHAIN IN NUMBERS

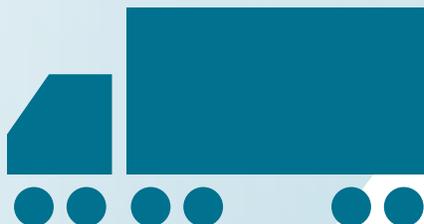
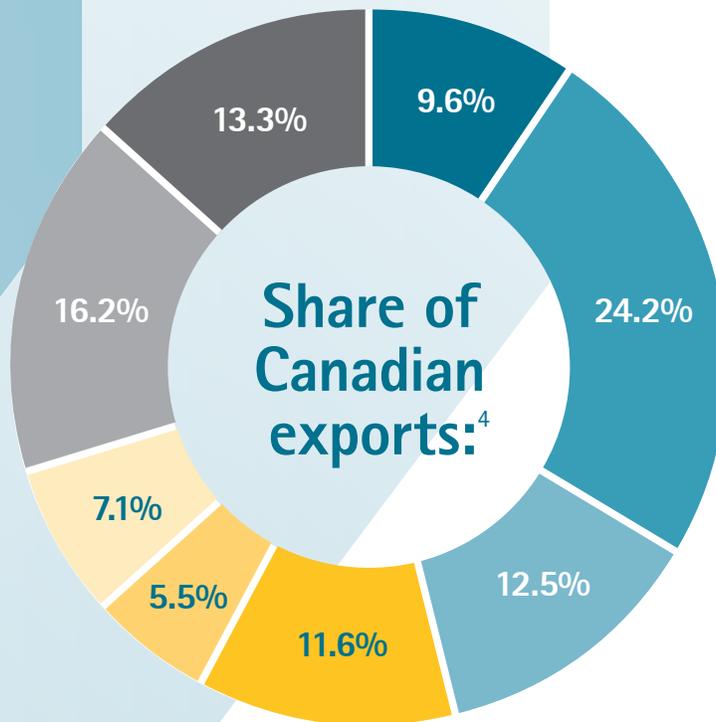
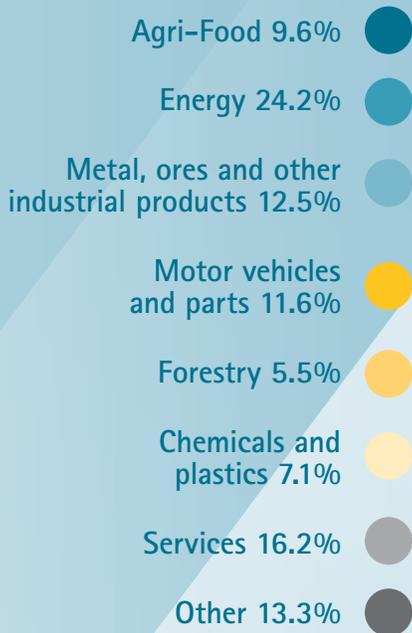
International

\$525

billion total exports of goods from Canada in 2015²

88%

of companies have global supply chains³



Canada's transportation system moves more than \$1 trillion worth of goods each year⁵

²<http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/gblec02a-eng.htm>

³http://www.scdigest.com/experts/Amberroad_15-01-22.php?cid=8899

⁴<http://www5.statcan.gc.ca/cimt-cicm/home-accueil?lang=eng>

⁵<http://www.tc.gc.ca/eng/ctareview2014/discussion-paper.html>



820,000

workers in the supply chain sector in Canada⁶

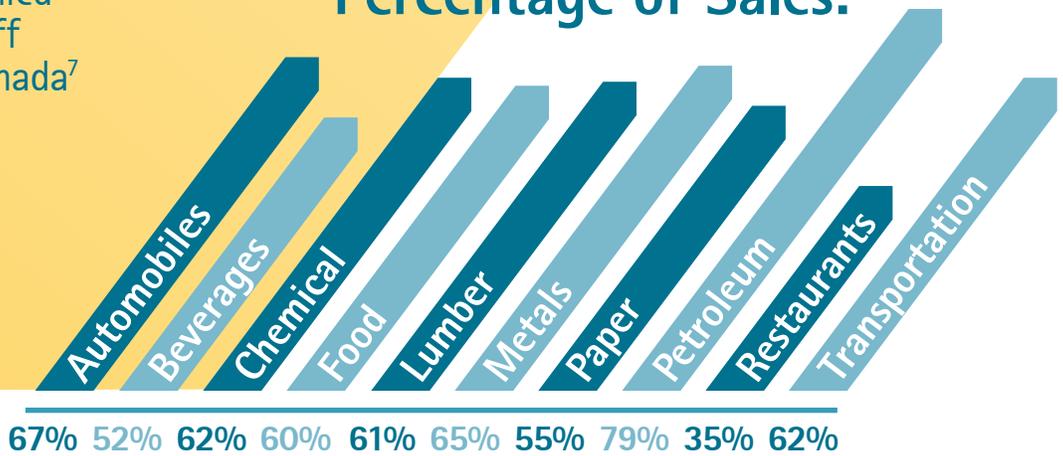
94%

of the workforce that produced a good or service of the top 50 companies in the world was employed in the supply chain⁸

66,000

forecasted job vacancies for skilled supply chain staff every year in Canada⁷

Supply Chain Costs as Percentage of Sales:⁹



Strategic

Companies that operate best in class supply chains:

Have **50%** higher sales growth and are **20%** more profitable¹⁰

80%

of employers think it is important for them to think more strategically about their supply chain managements¹¹

85%

of global supply chains had experienced at least one significant disruption over the preceding 12 months¹²

Implementing an ethical/sustainable supply chain can result in a supply chain cost reduction of

9-16%¹³

⁶<http://www.supplychaincanada.org/assets/u/SectorFactsandFiguresEnglish.pdf>

⁷2012 Labour Market Study conducted by the Canadian Supply Chain Sector Council (CSCSC)

⁸http://www.ituc-csi.org/IMG/pdf/pdffrontlines_scandal_en-2.pdf

⁹Operations Management, 11th Edition, Jay Heizer and Barry Render, 2014

¹⁰<https://www.pwc.com/th/en/consulting/operations/assets/pdf/benchmarking-supply-chain.pdf>

¹¹<http://supplychainfeature.scmnational.ca/content/strategic-supply-chain-managers-are-not-born-they-are-trained>

¹²<http://www.conferenceboard.ca/e-library/abstract.aspx?did=5604>

¹³http://www3.weforum.org/docs/WEFUSA_BeyondSupplyChains_Report2015.pdf



WHY SUPPLY CHAIN MATTERS

Supply chain. It may not sound glamorous, but it's a vital cog in our economy.

General Motors needs to bring parts from all over the world to build GMC Terrains in Ingersoll, Ontario. Suncor needs increasingly high-tech equipment to extract oil and get it to market efficiently. Canadian Blood Services must collect perishable blood products safely, then deliver them to hospitals exactly when needed. The Toronto Blue Jays need to get their players around North America rested and focused, and make sure they have all their equipment. Mountain Equipment Coop must source materials and products that meet both their quality and ethical standards.

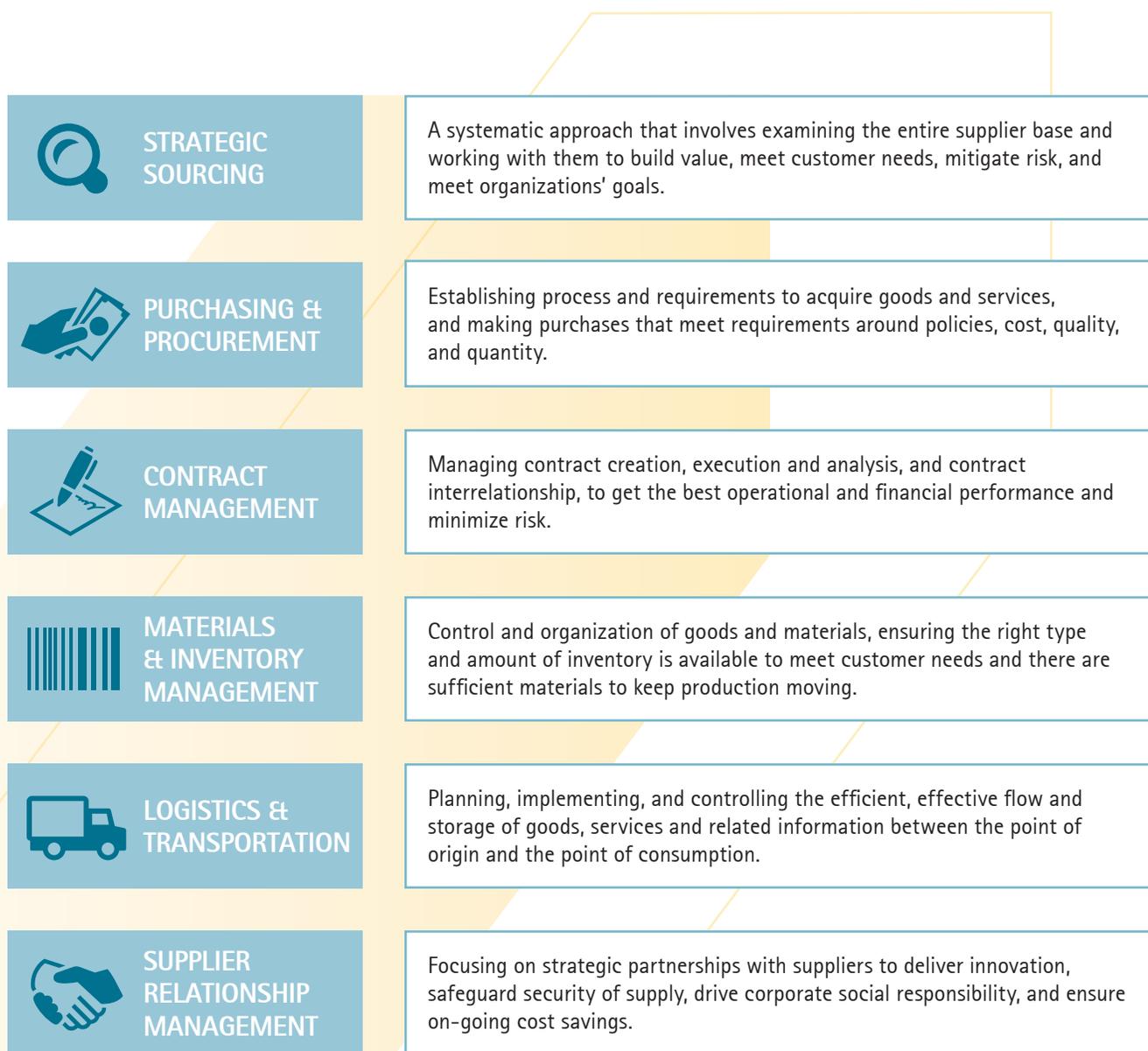
This is what Canada's supply chain managers do – and much more. Once identified mainly with corporate purchasing, the supply chain function has evolved and now touches almost every part of an organization's activities. Governments, corporations, non-profits and charities all rely on it to provide the goods and services they need, at the right place, at the right time.

Transport, distribution, procurement, contract management, sourcing, customs compliance, technology, security, export finance....these are among the many components of supply chain management. For many organizations supply chain management is the source of competitive advantage that shapes and delivers their overall strategy.

This report outlines the contribution that supply chains make to the Canadian economy, and some of the challenges that it faces. It also highlights a few examples of innovative supply chain management.

THE ROLE OF THE SUPPLY CHAIN

Supply chain management is a relatively new term, but reflects the changing, more strategic and coordinated role of the functions involved. For years supply chain professionals were seen as performing a function that would manage or reduce costs, but globalization and new technology have made the role much more important. The supply chain is not only critical in delivering a strategy, it can help provide insights to identify where an organization's competitive strength lies, what risks it faces, and how to mitigate them.



SUPPLY CHAINS EVOLVE INTO VALUE WEBS

LINEAR SUPPLY CHAINS ARE EVOLVING INTO...

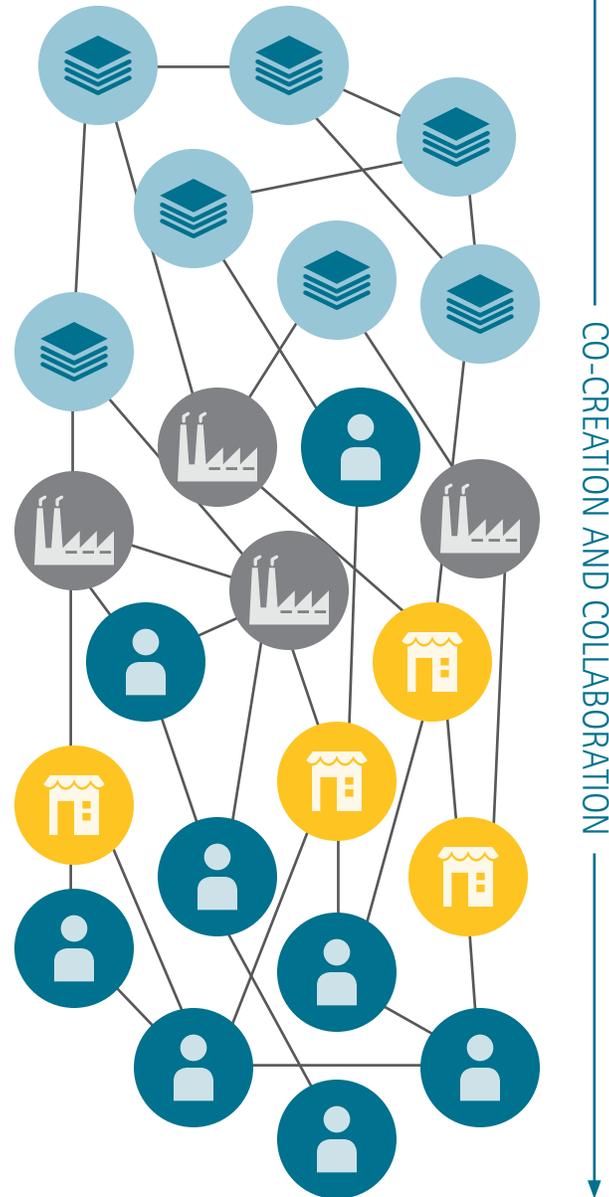
COMPLEX, DYNAMIC, AND CONNECTED VALUE WEBS

← COMPETITION →



Value is based on the production of goods and services

← COMPETITION →



Value is based on knowledge exchange that drives proactive production of goods and services

Source: Deloitte Analysis
Graphic source: Deloitte University Press, DUPress.com

SUPPLY CHAIN MANAGEMENT ACROSS SECTORS

Supply chain management is typically thought of in the context of retail or manufacturing, but there is now wide recognition of the role it can play across all sectors. Ideas and innovations in supply chain are also spreading across sectors as organizations seek to find ways to improve.

MANUFACTURING

Manufacturers rely heavily on their suppliers in delivering value, profits, and innovation. Each manufacturing sub-sector faces its own challenges and opportunities. Toyota estimates there are 30,000 parts from all around the world that go into making one car; vaccine producers have to distribute enough flu shots to vaccinate 10 million Canadians a year; and in fast moving consumer electronics where big global launches rely on slick logistical operations, the latest iPhone sold 13 million devices in its first weekend alone.



RETAIL

Research shows that retail CEOs who focus on optimizing their supply chains have 15 percent lower supply chain costs. Target's failure in Canada was put down to a failure in supply chain, whereas Walmart and Amazon's success is largely seen as a result of their supply chain leadership. Rona saw a big turnaround after a focus on its supply chain operations reduced the number of distribution centres.



NATURAL RESOURCES

Resource extraction typically takes place in isolated locations, and there are huge logistical challenges getting equipment in and resources out. Supply chain management is important in the sector. Suncor for example spends \$2 of every \$3 on goods and services, and disruptions at facilities can cost over \$1 million per day. Natural resources companies are increasingly looking to their suppliers to deliver cost savings, efficiency gains, and technological innovation.



SERVICES

Supply Chain is not just about the movement of goods. Many organizations will rely on suppliers to deliver non-core functions like IT, administration, or HR; or to deliver a competitive advantage through providing additional expertise. The increasing importance of supply chain for organizations is also driving the development of specialist supply chain companies like third-party logistics providers, or technology providers such as Kinaxis.



The pipeline of major construction projects has never been bigger. Major new bridges are planned for Montreal, Vancouver and Windsor; British Columbia is rolling out six massive hydroelectric projects each worth over \$500 million; and at last count 91 high-rise buildings were under construction in Toronto. These complex projects require sophisticated management to avoid issues with suppliers that could snowball into delays, cost overruns, and quality issues.

CONSTRUCTION



Canada's public sector purchases \$155 billion of goods and services annually, and the Federal government alone manages \$75 billion dollars' worth of assets. There is responsibility for every stage from assessment and planning of purchases, through to environmentally-sustainable disposal – the total life-cycle. The public sector is governed by a myriad of laws and trade agreements to ensure fairness, openness and transparency and there is heightened scrutiny around use of public funds. ROI is often community and service driven.

PUBLIC SECTOR

¹⁴<http://www.mondaq.com/canada/x/378378/Money+Laundering/Update+on+Government+Procurement+in+Canada+Key+International+Developments+in+2014>

SUPPLY CHAIN BENEFITS

There has been an evolution in the role of supply chain. Many successful organizations have built their success around a strong supply chain to deliver real competitive advantage. Below are some examples of where organizations have used supply chain to deliver advantages far beyond simply reducing costs:

1

ENHANCED PROFITABILITY



When new Rona CEO Robert Sawyer was appointed, one of his main tasks was to simplify the business and fix the supply chain. The changes he made delivered higher margins with same-store sales up 5% year-over-year.¹⁵

2

REDUCED STOCK-OUTS



Serving 70 million customers a day at 35,000 restaurants worldwide, McDonald's goal is to never be out of an item a customer orders. It achieves this by tracking inventories and shipments, and strong communications with suppliers.

3

REDUCED INVENTORY LEVELS



Inventory is the big challenge for tech firms, as Apple estimates stock loses 1-2% in value each week. Apple is twice as good at managing inventory as anyone in the sector, turning inventory every 5 days - 5 days less than anybody else.

4

REDUCED WASTE



Ontario's Beer Store developed a return-to-retail recovery system which involves the entire supply chain and means the average beer bottle is refilled 15 times, saving money and reducing waste, and also increasing visits to stores.

5

REDUCED RISK



150 year old Vancouver company, Oppy, distributes a hundred varieties of fruit and vegetables from 2500 growers to buyers in North America. Facing all types of climatic and political risks, the company has nurtured close relationships with suppliers and even provides pre-season financing to help reduce risk.

¹⁵<http://www.canadianbusiness.com/lists-and-rankings/best-stocks/investor-500-2015-rona/>

GM developed a deeper strategic partnership with its biggest 400 suppliers to get innovation to market quicker. This identifies top performers, gives them access to GM leadership, and holds joint planning and technology "visioning" sessions.



INCREASED INNOVATION

6

Amazon reset the bar on customer expectations through its supply chain strategy. Strategically placed distribution centres and the use of technology enable Amazon to deliver almost anywhere within 48 hours for little to no shipping cost.



INCREASED FLEXIBILITY

7

Mountain Equipment Coop was voted Canada's most respected brand for 2016, much of this is owed to a commitment to set targets around corporate social responsibility and being transparent about performance.



IMPROVED BRAND OR REPUTATIONAL EQUITY

8

As customer preferences shift towards mobile and online banking, TD¹⁶ is focusing its efforts on developing strategic relationships with financial technology companies to deliver a service to compete with new market entrants.



IMPROVED CUSTOMER SERVICE

9

The replacement of the crumbling Gardiner Expressway in Toronto is long overdue. The City of Toronto is using a procurement model that shares risks with suppliers which will cut construction time from 20 years to six years.¹⁷



INCREASED SPEED TO MARKET

10

¹⁶<http://www.fool.ca/2015/12/14/toronto-dominion-bank-what-to-expect-in-2016/>

¹⁷http://www.thestar.com/news/city_hall/2015/10/01/toronto-looks-to-private-sector-to-partner-on-gardiner.html



THE SUPPLY CHAIN AND THE FUTURE

Today's complex and fast changing business environment puts new demands on supply chains, as companies seek ways not just to manage the change, but also to use their supply chains as a source of competitive advantage. Those with the best records are thinking far beyond their own boundaries. They are getting the most out of their supply chains from end to end as they find new ways to collaborate with suppliers and customers. New technology is having a profound impact, helping them to streamline supply chains and realize maximum efficiency at the lowest possible cost.

The bottom line is that supply chain management has matured to the point where it is being driven by forces too powerful to

be ignored. The removal of trade barriers; development of low-cost communications and the internet; more efficient transport links; and the emergence of new data tools; will have a far-reaching impact on how organizations function and how they become or remain successful.

Supply chain management is set to become an indispensable and integral part of almost every organization, no matter how big or small, no matter where it is located, and no matter whether it is in the public, private or non-profit sector. Nothing can hold it back, but far-sighted and coordinated management will be needed to drive it forward.

The Supply Chain Management Association (SCMA) is the premier association for individual supply chain professionals in Canada. Each day, over 800,000 supply chain professionals manage the smooth flow of goods, services, finance and information around Canada. We are the voice of the profession, and provide training, education, certification and professional development.

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